



Treasury Inspector General for Tax Administration

ELIMINATING TELEFILE INCREASED THE COST AND BURDEN OF FILING A TAX RETURN FOR MANY TAXPAYERS

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Highlights

Highlights of Report Number: 2007-40-116 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Discontinuance of the TeleFile Program increased the cost and burden of filing a tax return for many individual taxpayers. Of the approximately 2 million individual taxpayers who had filed their tax returns through TeleFile in 2005 and would have remained eligible to file their income tax returns for free had the Program continued, TIGTA estimates that more than 541,000 taxpayers paid approximately \$23.6 million to file their tax returns in 2006. In addition, almost 966,000 taxpayers reverted to filing paper tax returns, thus losing the benefits of faster refunds that electronic filing provides. These figures do not include those taxpayers who would have become eligible to use TeleFile for the first time in 2006 but had to choose other methods to file their income tax returns.

WHY TIGTA DID THE AUDIT

This audit was conducted in response to a request from the Senate Finance Committee staff to evaluate the impact of eliminating the TeleFile Program. The objective of the audit was to determine the impact of the elimination of the TeleFile Program on individual taxpayers and the Internal Revenue Service (IRS) electronic filing program.

The TeleFile Program allowed an average of 4.4 million taxpayers to annually file their individual income tax returns for free using the keypads on their telephones. The IRS discontinued the Program in August 2005, citing increasing costs and declining participation; this ended one of two free electronic filing methods provided to taxpayers.

WHAT TIGTA FOUND

The IRS' decision to discontinue the TeleFile Program before adequate alternative free filing methods were developed was premature and created unnecessary taxpayer burden.

Our analysis of a statistical sample of 400 taxpayers who had used the TeleFile Program in 2005 showed approximately 68 percent would have continued to be eligible for the Program had it continued unchanged. Of the taxpayers who would have remained eligible, 29 percent incurred a cost to file their tax returns in 2006. Also, approximately 48 percent of the 2 million former TeleFile users reverted to filing paper tax returns. In addition to negatively affecting the IRS' efforts to increase electronic filing, the filing of paper tax returns increases taxpayers' wait time for refunds because the paper returns take longer to process and increase the risk of errors.

The free filing alternatives the IRS provided in its notification to affected taxpayers were not comparable to the TeleFile Program. Many contained filing or income restrictions, required access to computers and the Internet, or were overly burdensome when compared to the TeleFile Program. Also, the information the IRS used to support its decision contained errors and was incomplete. If these conditions were corrected, the differences among the processing methods may not have justified eliminating the TeleFile Program when the IRS did. Whatever the actual cost savings gained by discontinuing the TeleFile Program were, the result, in effect, was the shifting of costs from the IRS to taxpayers.

WHAT TIGTA RECOMMENDED

Because the concerns TIGTA identified regarding the use of inaccurate and incomplete data to support program decisions have been previously reported to the IRS, no recommendations were made in this report.

In its response to the report, the IRS stated it believes it acted appropriately in choosing to end the TeleFile Program when it did. In addition, the IRS indicated a significant number of former TeleFile users not choosing to use the IRS' Free File Program did not necessarily mean eliminating the TeleFile Program increased taxpayer burden.

TIGTA disagrees with the IRS' opinion that eliminating the TeleFile Program did not increase taxpayer burden. Former TeleFile users must now choose among the remaining return preparation and filing methods. Many taxpayers are either ineligible for or unable to conveniently access one or more of the free options, and they now incur costs for return preparation and filing. The alternative of reverting to filing paper tax returns increases the time it takes to receive refunds and increases the IRS' cost of processing tax returns.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200740116fr.pdf>.

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